

Minutes of Investment Committee Meeting

June 13, 2019 – 10:30 AM – Board Room

Called to Order: 10:39 a.m. by Chairman Glenn E. Becker

Attendance at Committee Meeting(s):

Members and Designees

Glenn E. Becker, Chairman

David R. Fillman, Assistant Chair

Michael G. Tobash

Joseph M. Torsella

Robin L. Wiessmann

Thomas Clancy – Designee for Treasurer Joseph M. Torsella

Lloyd Ebright – Designee for Treasurer Joseph M. Torsella

Alan Flannigan – Designee for Secretary Robin L. Wiessmann

Bernie Gallagher – Designee for Representative Dan B. Frankel – via phone

Brian LaForme – Designee for Secretary Robin L. Wiessmann

Antoinette Marchowsky – Designee for Senator Vincent J. Hughes

Dan Ocko – Designee for Representative Dan B. Frankel

Leo Pandeladis – Designee for Secretary Robin L. Wiessmann

Jill Vecchio – Designee for Representative Michael G. Tobash

Other Board Members and Designees

Stephen S. Aichele

John M. DiSanto

Mary A. Soderberg

Charles Erdman – Designee for Senator John M. DiSanto

Executive Staff

Christopher Houston

W. Bryan Lewis

N. Joseph Marcucci

Katie Matthews

Sara McSurdy

Terrill Sanchez

Consultants

Michael Elio, StepStone

Jay Kloepfer, Callan

Bud Pellecchia, Callan

Tom Shingler, Callan

Matt Ritter, NEPC – via phone

Christopher Waddell, Olson Hagel & Fishburn LLP

Presenters

Julia Kahr, Blackstone Capital Partners
Emily Mendell, Institutional Limited Partners Association
Julie Marracino, Blackstone Capital Partners

Visitors

Chris Ade, Lord Abbett & Co., LLC
James Bloom, Department of Banking and Securities
Philar Sorensen, PEStakeholder.org

Staff

Rose Agnew
Randy Albright
Steve Balucha
Don Bell
Jason Burger
Dhanashree Chitnis
Thomas Derr
Myisha Ebersole
David Felix
Jonathan Ferrar
Brian Gilroy
Randy Gilson
Jason Giurintano
Phillip Greenberg
Suzi Hansel
Pam Hile
Christopher Houston
Kevin Kiehl
Dan Krautheim
David Kuntch
Alan Lin
Karen Lynn
Katie Matthews
Jeffrey McCormick
Ryan McCoy
Matthew Meads
Jeffrey Meyer
Ryan Morse
Catherine Nolan
Kara O'Donnell
Joel Rimby
Kathleen Ryan
David Sedlak
Sarah Souder

Bruce Thomas
Joseph Torta
William Truong
Carly Wismer

Interns

Emily Bonswick
Jacob Fahnestock

1. CALL TO ORDER AND ROLL CALL OF PARTICIPANTS

Chairman Becker called the meeting to order at 10:39 a.m.

2. WELCOME AND INTRODUCTIONS

An introduction of the Committee members and designees was conducted. Bryan Lewis introduced Brian Gilroy, who recently transitioned from a SERS investment internship position to a SERS investment professional Junior Investment Analyst position.

3. APPROVAL OF MINUTES OF APRIL 23, 2019 INVESTMENT COMMITTEE MEETING

Chairman Becker presented the minutes provided to the Committee. By motion, the Committee unanimously agreed to approve the minutes of the 4/23/19 Investment Committee meeting.

4. OLD BUSINESS

➤ PROXY VOTING PROVIDER SEARCH UPDATE

Tom Shingler of Callan presented an update on proxy voting service providers. As a result, the Committee has authorized investment staff to issue an RFI to the identified consultant service providers by the week of June 24, 2019. Antoinette Marchowsky, designee for Senator Hughes, requested to have diversity statistics provided for each of the providers. Updates of response from the RFI process will be provided as they are received.

5. SPECIAL PRESENTATIONS

➤ ACTIVE AND PASSIVE STRATEGIES

Tom Shingler and Jay Kloepfer of Callan provided a presentation on active and passive investment strategies.

➤ BOARD EDUCATION - INSTITUTIONAL LIMITED PARTNERS ASSOCIATION (ILPA)

Emily Mendell of ILPA provided a presentation on the ILPA organization.

6. NEW BUSINESS

➤ SERS QUARTERLY PERFORMANCE ANALYSIS (AS OF MARCH 31, 2019)

- SERS DEFINED CONTRIBUTION/DEFERRED COMPENSATION PROGRAMS QUARTERLY INVESTMENT PERFORMANCE ANALYSIS (AS OF MARCH 31, 2019)

Bud Pellecchia and Tom Shingler of Callan presented the Defined Benefit Quarterly Analysis and Defined Contribution/Deferred Compensation Programs Quarterly Analyses.

PRIVATE EQUITY

- BLACKSTONE CAPITAL PARTNERS VIII L.P.

David Felix and Jason Burger of the SERS Investment Office provided an introduction of Julia Kahr and Julie Marracino of Blackstone Capital Partners, who presented Blackstone Capital Partners VIII L.P. to the Committee for consideration of SERS' commitment. After their presentation, a motion by the Investment Committee to recommend to the Board to commit up to \$75 million to Blackstone Capital Partners VIII L.P. was not initially adopted (by a vote of 3 YES – 3 NO – 1 ABSTENTION). This was followed by a motion to reconsider the previous motion, which was adopted unanimously by the Committee. Upon reconsideration, by motion moved by Chairman Becker, seconded, and approved by Committee members by a vote of 4 YES – 2 NO – 1 ABSTENTION, it was;

RESOLVED:

That the Investment Committee recommend to the State Employee's Retirement Board to commit up to \$75 million to Blackstone Capital Partners VIII L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, as a follow-on investment within the Private Equity asset class, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

- RISK MANAGEMENT/ASSET ALLOCATION

A discussion led by [insert names of the specific members of the SERS Investment Office staff], with comments from Tom Shingler of Callan, was held on Risk Management and Asset Allocation within the SERS investment portfolio.

As a result thereof, by motion that was moved by Chairman Becker, seconded, and approved unanimously by Committee members, it was;

RESOLVED:

That the Investment Committee recommend to the State Employees' Retirement Board to approve a temporary underweight allocation to the Multi-Strategy asset class, and an overweight allocation to the Fixed Income asset class, until the completion of the SERS Strategic Investment Plan and the asset allocation policy has been updated.

7. OLD BUSINESS – CONTINUED

➤ **PPMAIRC RECOMMENDATIONS PRIORITIZATION UPDATE (CONCURRENT MEETING WITH BOARD GOVERNANCE AND PERSONNEL COMMITTEE)**

The Committee participated concurrently with the Board Governance & Personnel Committee to discuss an update on the PPMAIRC recommendations. Specifically, recommendation numbers 14, 16, 19, 20 & 23, 24, 28 & 30 were discussed, as well as DAG Issue Area 2 Items 1 & 2.

As a result thereof, by motions presented by Chairman Becker, it was moved, seconded, and approved unanimously by Committee members, and thus;

RESOLVED:

(PPMAIRC Recommendation #14 - Public Dissemination of Board Materials)

See Board Governance & Personnel Committee report.

(PPMAIRC Recommendation #16 - Public Release of Marketing Materials, Legal Documents, Investment Contracts)

See Board Governance & Personnel Committee report.

(PPMAIRC Recommendation #19 - Gross/Net Performance Reporting)

That the Committee recommend to the State Employees' Retirement Board to direct the SERS Investment Office, in collaboration with the SERS Office of Finance and Administration, to use commercially reasonable efforts to publish net-of-fee and gross-of-fee returns on a prospective basis when reporting quarterly investment performance to the board, effective with the 1st Quarter 2020 performance report.

(PPMAIRC Recommendation #'s 20 & 23 - Quarterly Performance Reporting Update)

That the Committee recommend to the State Employees' Retirement Board to direct the SERS Investment Office, in collaboration with the SERS Office of Finance and Administration and its General Investment Consultant, to report total fund performance against a commonly understood reference portfolio benchmark (e.g., global 60/40 index), and include graphically rolling returns over the last five years.

(PPMAIRC Recommendation #24 - Specialty Consultant Performance Reports)

That the Committee recommend to the State Employees' Retirement Board to direct the SERS Investment Office to continue to publish SERS' quarterly performance reports, as well as to collaborate with SERS' private market specialty consultants, to develop a semi-annual performance report for the board's review and approval for public dissemination, beginning with the semi-annual reporting period ending 6/30/19.

(PPMAIRC Recommendation #'s 28 & 30 (ILPA))

That the Committee recommend to the State Employees' Retirement Board to amend Motion 2018-15 previously approved by the board on April 6, 2018, to, effective immediately, direct the SERS Investment Office, in collaboration with the SERS Office of Finance and Administration, to:

1. Require general partners of new investment opportunities approved by the board in private markets (e.g., private equity funds, private credit funds, real estate funds, hedge funds and other similarly structured vehicles) to provide SERS with the information found within the Institutional Limited Partners Association's (ILPA) Reporting Template through customized reporting or completion of the ILPA Reporting Template; and
2. Request general partners of existing investments in private markets (e.g., private equity funds, private credit funds, real estate funds, hedge funds and other similarly structured vehicles) to provide SERS with the information found within the Institutional Limited Partners Association's (ILPA) Reporting Template through customized reporting or completion of the ILPA Reporting Template.

(PPMAIRC Recommendation DAG Issue Area 2 Items 1 & 2 - Fee Reporting)

That the Committee recommend to the State Employees' Retirement Board to direct the SERS Investment Office, in collaboration with the SERS Office of Finance and Administration, to develop an annual report of all investment fees and expenses reported by its managers for the board's review and approval for public dissemination, with the first report being published for CY 2020.

8. EXECUTIVE SESSION

The Committee recessed and entered executive session to consider the fiduciary implications of the Public Pension Management and Asset Investment Review Commission's final report and its recommendation to consolidate investment operations with the Public School Employees' Retirement System. The Committee received advice from its investment and legal staff regarding these implications. The Committee then resumed and entered public session.

9. BOARD COMMENTS/CONCERNS/QUESTIONS

N/A

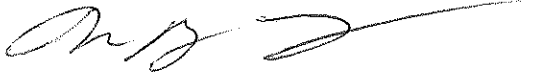
10. MOTION TO ADJOURN

By motion that was moved by Chairman Becker and approved unanimously by Committee members, it was;

RESOLVED:

That this meeting is adjourned at 5:05 p.m.

Respectfully Submitted,



W. Bryan Lewis, Chief Investment Officer